

INTRODUCTORY SECTION

**City of Manchester
Department of Finance**

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November 30, 2005

To the Honorable Board of Mayor and Aldermen and
Citizens of the City of Manchester, New Hampshire

The Comprehensive Annual Financial Report (the CAFR) for the City of Manchester (the City) for the fiscal year ended June 30, 2005 is hereby submitted. The City's Finance Department prepared this CAFR. The purpose of this report is to provide citizens, investors, grantor agencies, and other interested parties with reliable financial information about the City. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with management. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner that presents fairly the financial position and changes in financial position of the various funds and component units of the City. All disclosures necessary to enable the reader to gain an understanding of the City's activities have been included.

The CAFR is presented in three sections: the introductory section, the financial section, and the statistical section. The introductory section, which is unaudited, includes this letter of transmittal, the City's organizational chart, and a listing of City officials. The financial section includes the independent auditor's report; management's discussion and analysis; the basic financial statements; notes to financial statements; and the combining and individual financial statements and schedules. The statistical section, which is unaudited, includes pertinent financial and general information indicating trends for comparative basis fiscal years.

The City's basic financial statements include all entities for which the City is financially accountable, and other organizations of the City for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) Codification Section 2100 has set forth criteria to be considered in determining financial accountability. This criteria includes whether the City, as the primary government, has appointed a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the City.

The City has three component units – the Manchester School District (MSD), the Manchester Development Corporation (MDC), and the Manchester Transit Authority (MTA). Using the criteria of GASB Codification Section 2100, management determined that the three component units should be discretely presented.

The City's Charter requires an annual independent audit be performed in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial

audits contained in "Government Auditing Standards," issued by the Comptroller General of the United States of America and in conformity with the provisions of the Single Audit Act Amendments of 1996 and the United States Office of Management and Budget Circular A-133, "Audits of States, Local Governments and Nonprofit Organizations." The federal single audit for the year ended June 30, 2005, will be issued under separate cover. All information related to the single audit, including the schedule of expenditures of federal awards, findings and recommendations and auditor's report on compliance and on the internal control over financial reporting based on an audit of the basic financial statements, will be included therein.

General Description - The City, the largest United States city north of Boston, is located on the Merrimack River in south central New Hampshire, approximately 58 miles north of Boston, Massachusetts. It is bordered by the towns of Hooksett, Bedford, Londonderry, Goffstown, Auburn, Litchfield, and Merrimack. The City has a population of 109,761, according to the 2005 report of the New Hampshire Office of State Planning, and occupies a land area of 33.9 square miles. The Manchester Metropolitan Area, with a ten mile radius, has a population of over 310,000, and the Manchester Trade Area, with a 20 mile radius, has a population of over 628,000. The Manchester Metropolitan Area and the Manchester Trade Area are areas that the City believes represent key geographic regions for the City's growing economy.

The City's history dates back to 1651 and was first settled in the early Eighteenth Century by John Goffe, on land, which is now the City, that was the disputed territory of Massachusetts and New Hampshire. This land became part of New Hampshire when New Hampshire became a separate province in 1741. In 1751, the area was incorporated as a town and renamed Derryfield. Over the next century, the town evolved from a grazing field into a developing manufacturing center with major cotton and wool milling industries. Samuel Blodgett, the visionary of this development, compared the town to the industrial center of Manchester, England: hence, in 1810, the name of the town was officially changed to Manchester. In 1846, Manchester was granted its city charter. Manchester was one of the first planned cities in the country. Its streets are laid out in a grid pattern and major streets run parallel to the Merrimack River. In recent years the City's economy has undergone a transition from one that was manufacturing-based (textile) to one that includes a diverse array of businesses and industries.

The City owns and, through its Department of Aviation, operates Manchester Airport. Strategically located in the heart of northern New England, Manchester Airport offers air travelers easy access, competitive airfares, ample parking near the terminal and growing schedule of non-stop and direct jet service. Manchester Airport, a self-supporting, city-owned entity, is the largest commercial passenger, cargo, and general aviation airport in all of northern New England. Manchester Airport is completing a multi-year terminal and runway expansion project which when completed will permit enhanced service, including coast-to-coast non-stop flights and meet increased demand at the Airport.

Government and Financial Controls – The City operates with a strong mayor form of government. The Mayor is the City's full-time chief executive officer. The Mayor has appointment powers and budget line-item veto authority. The City's current charter (the Charter) was approved by the voters of the City at the November 5, 1996 general election. The Charter includes an ethics policy, a local initiative option, and calls for the formation of a Charter Review Committee every ten years.

The City is governed by an elected Mayor and a fourteen member Board of Aldermen representing each of the city's twelve wards and two aldermen elected at-large.

The Board of Mayor and Aldermen (BMA) approves the City's budget. The Board of Aldermen also nominates and appoints the City's officers. The Finance Committee, consisting of the entire Board of Mayor and Aldermen, approves labor contracts and also adopts monetary appropriations.

City financial management is the responsibility of the City's Department of Finance, which is staffed by 14 full-time personnel. The head of the Department of Finance is the Finance Officer of the City. The Department of Finance is responsible for establishing and maintaining a system of controls and financial reporting to ensure that the City's assets are protected from loss, theft or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with law and generally accepted accounting principles (GAAP). The Department of Finance also performs significant and ongoing monitoring of the financial performance of the City's departments and enterprise funds, including monthly and quarterly interim reports and forecasted year-end revenue and expenditure/expense balances for all departments. As required by City ordinance and by the Charter, interim reports are submitted to the Board of Mayor and Aldermen and all City Department heads. Key revenue and expenditure/expense items are highlighted in these reports by the Finance Officer for attention by the respective readers.

Interim reports are reviewed with the Committee on Accounts, Enrollment and Revenue Administration (COA). The COA is a five member standing committee of the Board of Aldermen. The COA meets on a regular basis to review and to discuss financial matters.

The City has an adopted Investment Policy. The Finance Officer also reports on investment performance to the Board of Mayor and Aldermen on a quarterly basis.

The City has also adopted debt policies and ordinances for the handling of one-time revenues, insurance reserves and undesignated fund balances.

The City's interim financial reports, budget and CAFR are available for viewing on the City's award winning web page.

Financial Information - The City's accounting system is organized and operated on a fund basis. A fund is defined as an accounting entity with a self-balancing set of accounts. The types of funds utilized by the City are as follows: general, special revenue, capital projects, enterprise, trust, and agency. The type and number of individual funds established is determined by GAAP and sound financial administration. The general, special revenue, and capital projects are maintained on a modified accrual basis of accounting, generally with the revenues recorded when measurable and available and the expenditures recorded when the services or goods are received and liabilities are incurred. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgements are recorded when payable from current financial resources. Accounting records for the City's enterprise, pension, and trust funds are on the accrual basis of accounting. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

The City also reports government-wide statements which includes all the funds of the primary government as well as all of its components.

Internal Controls - Management of the City is responsible for establishing and maintaining a system of internal controls over financial reporting to ensure that the assets of the government are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for the

preparation of financial statements in conformity with GAAP. Controls are designed to provide reasonable, but not absolute assurance regarding (1) the safeguarding of assets against loss from unauthorized use; and (2) the reliability and accuracy of financial statements. The concept of reasonable assurance recognizes that the cost of internal control should not exceed the benefits likely to be derived; and that the evaluation of cost and benefits requires estimates and judgment by management. The City believes that its internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Independent City Auditor – A charter amendment was adopted by voters on November 2, 2004 which established the Office of the Independent City Auditor (OICA) as a division within the Office of the City Solicitor. Prior to adoption of the amendment, the internal audit function had been the responsibility of the City's Finance Officer. The establishment of the OICA provides for a better segregation of duties and stronger internal control.

The OICA is charged with conducting investigations, analyses and research on any department, board, commission or agency as the BMA directs.

The OICA conducts post-audits of the accounts and records of any City department, board, institution, commission or agency as the BMA directs.

The OICA is responsible for the audit of the City's CAFR. The City Charter requires that the Finance Department issue a CAFR that details the financial condition and operation of the City consistent with GAAP not later than 90 days after the close of the fiscal year. The City Charter directs that the CAFR is to be subsequently audited by a certified public accountant designated by the OICA.

Appropriation Process and Budget Control - The Charter provides for the Mayor, and such other officials as the Mayor shall select, to prepare a budget for consideration by the Board of Aldermen. The Mayor's proposed budget must include certain historic and projected expenditure and revenue information and statements of anticipated tax levy and debt service requirements. The Mayor's proposed budget is referred to a public hearing. After the public hearing the BMA may adopt the proposed budget with or without amendment. If amendments are made, a second public hearing may be held prior to final adoption. The Mayor may veto the entire budget or line items thereof. In the event of a veto all portions of the budget not vetoed shall be passed. If the BMA fails to adopt appropriation resolutions for the ensuing fiscal year by June 30th, the Mayor's budget as originally proposed shall prevail.

The Charter also provides for supplemental appropriations, reductions of appropriations, and transfers of appropriations under certain limited circumstances.

The City maintains extensive budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the BMA. Activities of the general fund are included in the annual appropriated budget. Project-length budgets are prepared for the special revenue and capital projects funds. The level of budgetary control (i.e., the level at which expenditures cannot legally exceed the appropriated amount) is the departmental level within each fund. The City also maintains an encumbrance accounting system as one method of maintaining budgetary control. Unencumbered amounts lapse at year-end. Encumbered amounts at year-end are reported as reservations of fund balance.

A proposed charter amendment that would have limited combined annual municipal and school district spending to the rate of inflation was not allowed on the November 2005 ballot. RSA: 49-B: 5-a requires that any proposed charter amendment must be reviewed by the Attorney General's Office, the Secretary of State and the Department of Revenue Administration (the State's municipal regulatory authority) to ensure that it will not conflict with any existing state law(s). In a joint opinion, the three state offices objected to the proposed amendment. A Petitioners Committee filed suit to have the amendment placed on the ballot and a hearing in Superior Court was held on October 5, 2005. The Court issued a decision October 31, 2005 denying the Petitioner's request and the question was not put before the voters.

Biennial Budget - Chapter 54 of the Laws of 1998 (RSA 32:25-26 Biennial Budgets) was adopted by the New Hampshire Legislature in an effort to provide municipalities with more management flexibility. The statute allows for biennial budgets to be adopted for the periods immediately following a municipal election, thus providing that elected officials could only adopt biennial budgets covering their two-year term of service. The City Charter also allows for the adoption of biennial budgets.

Cash Management Policies and Practices - Excess cash was invested in U.S. Treasury Bills, certificates of deposit, repurchase agreements, and the State of New Hampshire (the State) Investment Pool. The maturities of the investments range from thirty days to six months, with the average maturity closer to the thirty-day range. This was certainly not due to a shortage of funds, but to the reality that the market was in an inverted yield curve position. Consequently, funds were invested for shorter durations to take advantage of the rate environment.

The City's Investment Policy conveys the concept that the preservation of capital and the liquidity requirements are the two primary factors considered in the structure of the portfolio. Whether instruments are marketed by banking institutions or pooled investment managers, they are subject to stringent requirements. Accordingly, approximately 75% of the cash and investments held at fiscal year-end in the city-wide statements were collateralized through Joint Custody Accounts at the Federal Reserve Bank of Boston or through perfected collateral arrangements. This contributed to the classification of a low risk profile, which the City strives to maintain. Most accounts/securities were held and designated specifically in the name of the City, while the guarantor of the pooled investment arrangement is the nation's leading municipal bond insurer and a publicly traded, NYSE-listed company.

The Cities of Manchester and Nashua presented legislation that would enable the use of certain derivative products including various types of swap agreements. In a currently expanding global economy, the ability to utilize different types of arrangements provides the opportunity to work with a diversity of financing structure scenarios to achieve the best possible financing for these cities. This is even more distinctly true when it is applicable to refinancing current outstanding debt. The legislation contains language specific to getting the proper local authorizations, while according that much more flexibility for each community. The bill took effect on August 6, 2005. It should be noted that similar legislation was passed a few years ago that was specifically structured for use with Airport Revenue Bond Debt.

Risk Management - The City has a program of both self-insurance and policies for worker's compensation, health, and general liability. Under this arrangement a third party administrator manages the claims with the City Risk Manager.

The City has a pro-active Employee Safety Program with a Safety Officer and a Safety Committee meeting on a regular basis.

Liability, property, auto, and professional coverage are maintained with claims coordinated through the Risk Management office.

A Charter Amendment allowing a section 401 (h) sub-trust for the payment of a health insurance subsidy to retirees was referred to voters for consideration at the November 2005 election. The Amendment provides for a health insurance subsidy of \$200 per month plus indexing (4% annually) for qualified participants based on years of service. The subsidy can only be used to purchase City provided health insurance and can only be applied to the retirees portion of the health insurance. Employee contributions to the plan will increase from 3.75% to 5%, an increase of 1.25% to help pay for the added health benefit. The system's actuaries estimate that the FY 2006 employees' contribution would increase by approximately \$1.2 million and that the estimated accrued liability over thirty (30) years would be approximately \$17 million. Voters adopted the Amendment in November 2005. In accordance with Chapter 41 of the Laws of 2005, the sub trust will be established within ninety (90) days of the election with employee contributions being deducted at that time, February 2006 and employer contributions commencing with FY 2007.

Community Improvement Programs – As part of the City budget process, the City Finance Officer provides the Mayor and Aldermanic CIP committee with a five year debt affordability forecast as a basis for the Planning Department development of the Mayor's recommended CIP program/budget. The project initiatives are envisioned over the ensuing fiscal period in accordance with the affordability forecast.

GENERAL GOVERNMENT FUNCTIONS

Education Funding

Education funding in New Hampshire remains a volatile public policy issue. In fiscal year 2005, the State adopted an education funding formula that reduced state funding for Manchester by approximately \$3.4 million. As a result the City took steps to restrict departmental spending city wide and dedicated additional undesignated fund balance as part of the tax rate setting process to avoid "rate shock" and any deficit situation. However, in June 2005, the Legislature adopted yet another revised education funding formula that resulted in an approximate \$5 million increase in funding for the City of Manchester in FY2006, from \$42,051,653 to \$47,007,257. The new "biennial" formula would also result in essentially level funding for Manchester in FY 2007. It is important to note that several cities/towns have filed suit over this new formula and preliminary court decisions have supported the plaintiffs. Consequently, state funding for education continues as an uncertainty for both the short and long-term future.

ECONOMIC DEVELOPMENT/MANAGEMENT INITIATIVES

As the State's largest city and business center, Manchester boasts a diversified economic base. Both the State and the City are recognized nationally for their livability (Most Livable State and #1 Healthiest State – 2004 Morgan Quitno Press; Fourth (4th) Safest State 2004 - Morgan Quinto; #2 in Child and Family Well-being - 2003 Kids Count Data Book; #4 Friendliest State for Small Business and Entrepreneurship 2003 – Small Business Survival Committee; #7 Best Small Metro Area for Doing

Business in America 2005 – Inc. Magazine; #3 Best Economy 2003 – World Development Alliance; #10 Best Place to Live in America 2004 – Men’s Journal.

Manchester has always been a city where business prospers. Once the site of the world’s largest textile mill complex, the City today boasts an economy that is a diverse combination of manufacturing, service and retail firms. The history of Manchester is one of orderly growth, emphasizing the dual values of business prosperity and quality of life.

More than 200 diversified manufacturing firms call Manchester home. Nearly 70% of manufacturing jobs are in durable goods production, especially metal products, electrical products and machinery, and plastics.

Over 80% of the work force in the Manchester Metropolitan Statistical Area (MSA) is employed in more than 2,000 non-manufacturing firms, and Manchester is the financial and commercial center of northern New England.

The Manchester MSA has over 8,000 commercial establishments, including more than 800 retail stores with annual sales of over \$2.4 billion (2001). Continuing expansion of financial and business services, supported by significant growth in population and personal income during the past decade, has contributed substantially to improvement of the area’s economy.

The labor force in the Manchester NH MetroNECTA numbers 108,100 while the unemployment rate is 3.4% (October 2005).

Economic Development

The City has made a major effort in recent years to diversify its economy. This planned effort has led to the location of an array of businesses and industries in the City, and has provided a strong base for future economic development activities. Much of this diversification was accomplished through redevelopment projects, which required a high degree of public and private cooperation.

Downtown Revitalization

The rehabilitation of the City owned “Chase Building” in the center of downtown is now complete and has been recognized with three preservation awards. This project was made possible utilizing a \$1 million grant from the U.S. Department of Commerce, Economic Development Administration, a \$1 million loan using Housing and Urban Development (HUD) Community Development Block Grant (CDBG) funds, a \$1.55 million loan from the HUD Section 108 Loan Guarantee Program, and a \$200,000 loan from the Manchester Development Corporation. The 44,000 square foot, six story structure is a tax deeded property that was made possible by a public/private partnership with a developer who has guaranteed to pay off all debt in exchange for an option to purchase the building at the end of fifteen years. In addition to the Chase Building, the Bond Building and the Dunlap Building have been redeveloped in the same area with the McQuade Building completed in December 2004.

The completed “Bond Building” renovation includes approximately 5,000 square feet of retail, 5,000 square feet of office space and 9 units of market rate housing. This project is privately owned and financed through the use of \$1.552 million in HUD Section 108 loans, \$288,000 in CDBG funds, \$150,000 from Manchester Housing and Redevelopment Authority, and a \$100,000 private investment

from the Bank of New Hampshire. All funds were loaned to the project with various repayment schedules.

The Dunlap Building was another blighted structure that was recently renovated. This was made possible through a loan from the City in the amount of \$1.35 million and \$450,000 from the Manchester Development Corporation. This privately owned building contains approximately 5,000 square feet of retail and 20,000 square feet of class “B” office space. The recently renovated “McQuade Building” is another mixed commercial use project. Funding for this project utilized \$1.920 million in HUD Section 108 loans, \$250,000 in Manchester Development Corporation loans and a \$230,000 loan from Manchester Housing and Redevelopment Authority.

The Residences at Manchester Place, located on a long-standing vacant lot at a major downtown intersection, began construction at the intersection of Bridge and Elm Streets in May 2004 and is nearing completion, with the first tenants in residence. The building contains 204 rental apartment units and 5,200 sq. ft. of retail space fronting on Elm Street, the City’s retail spine. The City financed the construction of an adjacent 300 car-parking garage at a cost of approximately \$5 million. This project is the City’s first, new, downtown apartment complex in nearly 18 years. Total construction and development costs for The Residences at Manchester Place are calculated to be \$35.375 million. Funding for the project is as follows: HUD Section 221D(4) Insured Mortgage-- \$29,625,000; Section 108 Loan--\$500,000; and Developer Equity-- \$5,250,000.

Riverfront Development

Manchester continues to recognize the tremendous potential of the Merrimack River adjacent to its historic Amoskeag Millyard. A strategy to redevelop its riverfront is reaping great benefits for the City. Key to this strategy is the public investment in development of a Riverfront Baseball Stadium, the pedestrian river walk system (the “Riverwalk”), and parking.

The City-owned Baseball Stadium, with capacity for over 7,500 spectators and home to the Toronto Blue Jays AA affiliate, The New Hampshire Fishercats, was completed in April 2005. Construction is currently underway on a 127-room Hilton Garden Inn adjacent to the Stadium, scheduled to open in February 2006. The \$10 million hotel will generate an estimated \$200,000 in annual tax revenues to the City. Also part of the Riverfront development is a \$30 million residential project including 45 townhouse condominiums and 132 garden-style apartments.

In February 2004, Tyson, Inc. announced the closing of its meat packing plant in the City causing the loss of 550 jobs. Working with state and local agencies, as of August 1, 2004 all of the former Tyson, Inc. employees were reemployed. The Tyson, Inc. property, approximately 17 acres, is located along the Merrimack River just south of the new Stadium and north of Hesser College. The City, through the Manchester Housing and Redevelopment Authority, has entered into a purchase and sales agreement to acquire the property from Tyson, Inc. In conjunction with the acquisition, the Board of Mayor and Aldermen has authorized the City’s Planning Department along with the Manchester Development Corporation to undertake a study of Downtown Manchester to guide the City in shaping future development. AngelouEconomics of Austin, Texas will craft a Global Economic Development Strategy to guide City activities over the next decade and beyond; Hillier Architects of Philadelphia, PA is creating a new vision for a Downtown Development Plan. In addition, a Parks and Recreation Master Plan and a Parking Study are being carried out concurrently. The results of all these studies are expected to be finalized in early 2006.

SOURCES OF CITY REVENUES

Property Taxes

The principal revenue source of the City is the tax on real and personal property. There is no limit as to rate or amount. A single tax is levied for state, county, municipal, and school purposes. For New Hampshire municipalities the “assessment year” for taxing purposes runs from April 1 to March 31 of the following year. Taxes are due in Manchester in two installments, on July 1 and December 1 (subject to deferral if tax bills are sent out late). Interest accrues on delinquent taxes at a rate of 12 percent per annum from the due date to the date of payment. Real property (land and buildings) is subject to a lien for the taxes assessed upon it (subject to any paramount federal lien and subject to bankruptcy and insolvency laws). The City places a lien on delinquent property prior to May 1 of the following year. From the date of the tax lien, a two-year period of redemption is allowed the owner, during which time payment of taxes, interest, and costs will be accepted and the lien released. During the redemption period, 18 percent interest per annum is charged. Beyond the two year period of redemption, properties are deeded to the City (unless either the lien has been sold by the City, or the City has notified the collector that it will not accept the deed because acceptance could result in liability under environmental statutes imposing strict liability on owners). Except for any paramount federal lien and subject to bankruptcy and insolvency laws, tax liens take precedence over all other liens, and tax collector’s deeds are free and clear of all encumbrances.

The amount to be levied in each year is the amount appropriated or required by law to be raised for municipal expenditures less estimated receipts from other sources and less appropriations voted from available funds.

The annual tax rate and tax levy are established by the State of New Hampshire Department of Revenue Administration (DRA) in October or November of the fiscal year, based on adopted appropriations of the City and Hillsborough County and anticipated non-property tax revenues. Tax rates and levies are established separately for the county, municipal, and local and state school portions. The DRA recently approved a less than 2% increase in the overall property tax rate imposed on City taxpayers, from \$27.92 per \$1,000 of assessed valuation for fiscal year 2005 to \$28.36 per \$1,000 of assessed valuation for fiscal year 2006.

The tax levy calculations set forth in the following table for fiscal years 2001 through 2005 are presented in the same manner as supplied to DRA for tax rate setting purposes. A requirement of DRA is that all costs included under departmental appropriations on behalf of the MSD be reflected as part of the school costs and reduced from the original appropriation category. Therefore, the categorical amounts in the tax levy calculation cannot easily be equated to those shown below under “Fiscal Year 2004 Budget.”

In 2005 the City began the process of a City-wide revaluation. The revaluation will be effective as of April 2006 and will be used to assess property taxes beginning with fiscal year 2007. As part of the Supreme Court decision on education funding, cities and towns in New Hampshire are required to undertake revaluations every five years. The City expects the next revaluation after April 2006 to be effective for April 1, 2011.

Calculation of Property Tax Levy

	2001	2002	2003	2004	2005
Departmental Requirements:					
General Government	\$22,412,332	\$22,795,572	\$21,089,086	\$ 19,369,214	\$ 21,508,513
Public Safety	32,896,813	35,675,949	36,920,465	40,196,357	41,736,476
Highways & Safety	18,125,291	15,326,474	18,111,301	18,685,055	18,925,469
Sanitation	1,785,333	6,440,962	2,966,376	2,835,157	3,264,854
Health	2,503,716	2,733,226	2,805,523	3,071,406	3,253,176
Welfare	1,269,737	1,461,074	1,476,875	1,307,294	1,247,067
Culture & Recreation	4,629,710	4,834,839	4,671,441	4,786,541	5,182,890
Economic Development	2,220,785	2,595,161	2,890,339	2,913,235	3,384,663
Education	106,832,425	115,808,857	121,148,267	126,575,275	137,499,619
Debt Service Requirements					
Principal on Long-Term Loans	10,287,693	10,034,398	10,890,802	10,363,628	9,750,050
Interest on Long-Term Loans	3,585,996	3,298,349	5,181,213	5,864,924	7,808,100
Non-Departmental Requirements:					
Transit Subsidy	663,330	725,000	725,000	850,000	1,011,785
Motorized Equipment	399,900	382,500	50,000	120,000	200,000
County Tax	8,045,138	8,736,858	8,465,440	8,770,087	9,340,848
Veterans Exemptions	590,700	573,400	575,200	565,500	761,100
Overlay Reserve for Abatements	(2,307)	1,081,931	1,023,700	1,542,714	715,673
Total Estimated Requirements	216,246,592	232,504,550	238,991,028	247,816,387	265,590,283
Estimated Revenues:					
Taxes, Penalties & Interest	1,587,210	1,152,162	1,140,787	1,262,999	1,216,879
Auto Registration	12,682,000	14,913,000	15,569,000	15,681,000	16,398,811
Licenses & Permits	3,888,400	3,806,100	4,422,038	4,459,276	4,621,950
State and Federal Revenues	8,160,596	8,533,036	8,862,815	9,080,714	9,525,451
Charges for Services	11,138,603	16,507,345	5,816,757	6,292,008	6,010,102
Interest	1,700,000	1,825,000	1,816,000	1,000,000	1,500,000
Surplus	1,800,000	1,500,000	2,250,000	1,600,000	2,588,516
Trust & Agency Funds	300,000	300,100	300,000	335,100	300,100
Miscellaneous	3,862,130	1,589,419	10,317,663	9,838,850	11,448,055
Education Adequacy Grant	36,878,752	42,283,387	42,473,084	45,567,271	42,051,653
State Education Taxes (1)	25,515,954	28,447,547	29,155,221	27,840,016	22,402,805
School Revenues	17,468,979	18,036,000	15,007,326	16,510,927	23,080,423
Total Estimated Revenues	124,982,624	138,893,096	137,130,691	139,468,161	141,144,745
Tax Levy	\$ 91,263,968	\$ 93,611,454	\$ 101,860,337	\$ 108,348,226	\$ 124,445,538

(1) State Education Taxes are included as part of the City's total tax levy.

As shown in the table above, for purposes of calculating the property tax levy, estimated departmental budgetary requirements, which in fiscal year 2005 totaled \$265,590,283, are assumed to be funded first from estimated non-tax revenues, which in fiscal year 2005 totaled \$141,144,745. The remaining budgetary requirements are then assumed to be funded from the property tax levy.

Employee Relations

Pursuant to New Hampshire RSA 273-A, all public employees in the State of New Hampshire have the right to organize and to bargain collectively with their public employers on matters of wages, hours, and other conditions of employment other than managerial policy. The City has approximately 1,241 employees, of whom approximately 67% are bargaining unit members.

The following identifies Manchester's municipal labor organizations, their affiliations, the length of each contract and the date on which the contract expires.

<u>Organization</u>	<u>Affiliation</u>	<u>Length of Contract</u>	<u>Expiration of Contract</u>
Airport	Teamsters	3.0 Years	06/30/07
Public Works, Parks and Sanitation	AFSCME 298	3.0 Years	06/30/07
Police Department	MAPS	3.0 Years	06/30/07
Police Department	MPPA	3.0 Years	06/30/07
Water Works	USWA	3.0 Years	06/30/07
Fire Department	IAFF	3.0 Years	06/30/07
Police Department Support Staff	Teamsters	3.0 Years	06/30/07
Fire Department	MAFS	3.0 Years	06/30/07
Health Department	AFSCME	3.0 Years	06/30/07

AFSCME: American Federation of State, County, and Municipal Employees

MAPS: Manchester Association of Police Supervisors

MPPA: Manchester Association of Police Patrolmen

USWA: United Steelworkers of America

IAFF: International Association of Firefighters

Teamsters: Local 633 of NH

MAFS: Manchester Association of Fire Supervisors

The City and the applicable union have agreed to the material terms necessary to extend and/or modify of the existing collective bargaining agreements. New collective bargaining agreements, however, have not yet been executed.

In addition to the above listed groups that are officially organized, there is one other group that has retained their status as Non-affiliated Employees. The "Non-affiliated" group is comprised of administrative, clerical, and supervisory personnel in most of the departments listed above, as well as the entire segment of employees, which account for the "General Government" grouping.

Summary

The combination of these new economic projects along with the City's successful investment in the Manchester Airport, the Verizon Wireless Arena and various Millyard initiatives should help sustain the City's economy for the next decade.

While the City has taken actions to stimulate the local economy, it should be recognized that the overall New Hampshire economy is expected to remain the strongest in the region. New Hampshire's current growth outpaces both national and New England averages.

While the City's current economy appears resilient with property tax collections remaining strong (99.09%), the Board of Mayor and Aldermen have adopted the above mentioned policies and capital initiatives to further strengthen the City's financial condition and the local economy during this anticipated sustained period of economic slowdown. These projects are aimed not only at providing jobs, but also more importantly, at enhancing local education and quality of life.

The City's fiscal year 2006 Budget will be challenged by fuel and heating oil costs. The uncertainty surrounding heating fuel for buildings and gasoline and diesel fuel for the City fleet will require a constant vigil of impacted line items and departmental budgets so as to make spending decisions within overall appropriation levels. The FY 2006 and 2007 budgets will also experience pressure in the employee benefits area due to increasing health care costs and the addition of pension benefits. All employee contracts expire at the conclusion of FY 2007, and will present a unique opportunity for management.

Building permit data indicates significant activity for the spring of 2006. However the availability of affordable housing remains a concern.

BOND ISSUES AND CREDIT RATING DURING PERIOD
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The general debt limit of the City is 9.75% of base valuation¹, providing a total capacity of \$941,161,341; while School is 7% of base valuation for a maximum allowable limit of \$675,705,578. Water and Sewer projects ordered by the State Water Supply and Pollution control commission, self-supporting sewer debt, debt for urban redevelopment and housing purposes, and overlapping debt are excluded from the measure of indebtedness. Other water projects are subject to a separate, special debt limit of 10% of the City's base valuation. Borrowings authorized by special legislative acts rather than the general municipal finance statutes are also sometimes excluded from a city or town's statutory debt limit.

As of June 30, 2005 the City has a total outstanding General Obligation debt of \$263,666,521 and authorized and unissued debt of \$22,750,000 for various improvements, infrastructure improvements, and economic development projects.

The City was assigned the following credit ratings; FitchRatings (Fitch), Moody's Investors Service, Inc. (Moody's) and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. (S&P), have assigned the ratings of "AA+," "Aa2," and "AA+," respectively, to the Bonds.

¹ Base valuation for debt limits is provided annually by the State of New Hampshire Department of Revenue Administration as part of the calculations for equalized assessed valuations for each municipality, and amounted to \$9,652,936,827.

The MSD was assigned the following credit ratings; Fitch, Moody's and S&P, have assigned the ratings of "AA," "Aa3," and "AA," respectively, to the Bonds.

The MWW was assigned the following credit ratings; Fitch, Moody's and S&P, have assigned the ratings of "AA," "Aa3," and "AA," respectively, to the Bonds

INDEPENDENT AUDIT

The City's Charter requires an annual audit by an independent certified public accountant. The City has engaged McGladrey & Pullen, LLP, Certified Public Accountants, to conduct the City's audit. In addition to meeting the requirements set forth in State statutes and the Charter, the audit was also designed to meet the requirements of the federal Single Audit Act and related OMB Circular A-133. The financial records, books of accounts, and transactions of the City for the fiscal year ended June 30, 2005 have been audited by McGladrey & Pullen, LLP. The auditor's report on the basic financial statements is included in the financial section of this report. The auditor's reports on internal controls and compliance can be found in a separately issued single audit report.

ACKNOWLEDGEMENTS

I would like to thank all of the City's department heads, payroll and account clerks for completion of another successful year. I would especially like to thank the staff of the Finance Department for their dedication and attention to detail.

Respectfully submitted,

Kevin A. Clougherty

Kevin A. Clougherty
Finance Officer



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The organizational chart for the City of Madison, Wisconsin, is structured as follows:

- Mayor** (Elected by Citizens)
 - Board of School Committee** (Elected by Citizens)
 - School District
 - Welfare Commissioner** (Elected by Citizens)
 - Welfare Department
 - Board of Aldermen** (Elected by Citizens)
 - City Officers** (Nominated and Appointed by Board of Aldermen)
 - City Clerk
 - Office of the City Clerk
 - Finance Officer
 - Finance Department
 - City Assessors
 - Office of Assessors
 - Libraries
 - Library Trust Funds
 - Library Trustees** (Nominated and Appointed by Board of Aldermen)
 - Libraries
 - Library Trust Funds
- Special Service Boards and Commissions** (Nominated by the Mayor and Confirmed by the Board of Aldermen)
 - Board of Recount
 - Art Commission
 - Heritage Commission
 - Planning Board
 - Planning Director
 - Planning Department
 - Community Improvement Program
 - Water Commission
 - Water Director
 - Department of Water
 - Conservation Commission
 - Zoning Board of Adjustment
 - Manchester Development Corporation
 - Board of Registrars
 - Trustees of Trust Funds
 - MDC Inc.
- Departments** (Nominated by the Mayor and Confirmed by the Board of Aldermen)
 - City Solicitor
 - Office of the City Solicitor
 - Risk Management
 - Safety Review Board
 - Chief Negotiator/Contract Administration
 - Personnel Appeals Board
 - Director of Human Resources
 - Department of Human Resources
 - Systems Advisory Committee
 - Tax Collector
 - Department of Tax Collection
 - Fire Chief
 - Department of Fire Prevention
 - Fire Commission
 - Police Chief
 - Department of Police Protection
 - Police Commission
 - Director of Elderly Services
 - Department of Elderly Services
 - Elderly Services Commission
 - Health Officer
 - Department of Health
 - Board of Health
 - Director of Traffic
 - Department of Traffic
 - Building Board of Appeals
 - Airport Authority
 - Superintendent of Parks, Recreation & Cemeteries
 - Department of Parks, Recreation & Cemeteries
 - Parks & Recreation Commission
 - Building Commissioner
 - Department of Building
 - Building Board of Appeals
 - Airport Director
 - Department of Aviation
 - Airport Authority
 - Economic Development Director
 - Economic Development Office
 - Highway Commission
 - Director of Public Works
 - Department of Highway
 - Highway Commission
 - Environmental Protection Division

**List of Principal Officials
in office at the close of fiscal year ended June 30, 2005**

Mayor

Robert A. Baines

Aldermen

Ward 1	Mark E. Roy	Ward 7	William P. Shea *
Ward 2	Theodore L. Gatsas	Ward 8	Betsi L. DeVries
Ward 3	Frank C. Guinta	Ward 9	Michael D. Garrity
Ward 4	Mary A. Sysyn	Ward 10	George W. Smith
Ward 5	Ed Osborne	Ward 11	Henry R. Thibault
Ward 6	Paul Porter	Ward 12	Armand D. Forest
At-large	Michael J. Lopez	At-large	Daniel P. O'Neil

* Chairman of the Board

City Departments

Finance Officer	Kevin A. Clougherty
Deputy Finance Officer	Randy M. Sherman, CPA
Second Deputy Finance Officer, Treasury Manager	Joanne L. Shaffer, CCM
City Clerk	Leo R. Bernier
City Solicitor	Thomas R. Clark
Commissioner of Welfare	Paul R. R. Martineau
Chief of Police	John A. Jaskolka
Fire Chief	Joseph P. Kane
Public Health Director	Frederick Rusczyk, M.P.H.
Director of Public Works	Frank C. Thomas, P.E.
Director of Parks, Recreation & Cemetery	Ronald E. Ludwig
Director of Economic Development	Unfilled
Building Commissioner	Leon LaFreniere
Director of Traffic	Thomas P. Lolicata
Airport Director	Kevin A. Dillon
Director of Water	Thomas M. Bowen, P.E.
Director of Information Systems	Diane Prew
Director of City Library	John Anthony Brisbin
Director of Planning Board	Robert S. Mackenzie
Superintendent of Schools	Michael Ludwell, Ph.D.
Director of Human Resources	Virginia A. Lamberton
Director of Elderly Services	Barbara A. Vigneault
Director of Youth Services	Martin Boldin
Chairman Board of Assessors	Steven G. Tellier
Collector of Taxes	Joan A. Porter